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Microcaptive Tax-Free Limits Rising to \$2 Million

Business Insurance

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In an article published on Dec. 23, 2015, Scot Kirkpatrick discusses the legislation recently signed into law by President Obama and how it affects captive insurance. The amount of money microcaptives can elect to have be free of federal taxes nearly doubled under the legislation, changing from the current \$1.2 million to up to \$2 million, effective for 2017. Such captives generally meet the IRS' tax-exempt requirement if no more than 20% of either net written premiums or direct written premiums are attributable to any one policyholder in a taxable year. "That's for group captives, like farming and mutual insurance companies, where if you have at least five members you are all set," explained Kirkpatrick. He said the higher premium limit essentially reflects inflation. "One of the big advantages of having a captive is if you run your own business, you can make the choice of what layers you want to keep for yourself because you can manage it and buy the commercial insurance that fits your needs," he added. But if an 831(b) captive looks as though it has been set up for estate planning purposes, such premiums would not be exempt from taxes. "I'm not sure this is a bad thing for the insurance world; it's going to require more focus on how (microcaptives) are structured and how they are used, and these are risk management tools, not tax devices," Kirkpatrick further explained. You may view the full article [here](#).